

Inflation: Alive and Well

For years, the central planners at the Federal Reserve have assured us that inflation is dormant, if not dead. Fed Governor Ben Bernanke, during a recent speech in Washington, took pains to emphasize that inflation is “Under very good control.” But considering the relentless increase in the money supply engineered by the Fed over the last decade, one wonders whether Messrs. Bernanke, Greenspan, and company protest too much.

The most widely used measurement of inflation is the CPI, an index that many economists believe grossly understates true inflation. The most glaring problem is that CPI excludes housing prices, instead tracking rents. The Fed’s easy credit policies have created an artificial mortgage boom, with many Americans who would not have met credit standards 30 years ago now buying houses. With more demand for houses, demand for rentals has diminished, causing rental prices to drop- distorting the CPI downward. However, everyone knows that housing prices have risen dramatically over the last decade in most parts of the country. So the single biggest expense for most Americans- their mortgage- certainly has inflated!

But not only housing prices are on the rise. London economist Sean Corrigan reports that the prices of many other goods and services, including medical care and energy, have also increased substantially. Commodity prices in particular have risen recently. In fact, the Journal of Commerce index for widely traded commodities has risen 49% since last spring! Fed Chairman Greenspan may dismiss commodities as mere “physical” assets in his vision of an increasingly “conceptual” economy, but average Americans should understand how these dramatic increases in commodity prices will affect our pocketbooks: -gold is around \$400, near its 14-year high; platinum is at a 25-year high; -steel prices are up 160%; aluminum 50%; copper 120%; -lumber has soared 93% in less than a year; -coal prices are up 50% over one year ago; -lead is at a 17-year high; nickel is at a 13-year high; -beans, corn, rice, and soy have all risen at least 40%.

With all due respect to Mr. Greenspan and his colleagues, real inflation as measured by an increase in the money supply is not so easy to disguise. As Mr. Corrigan deftly defines it, inflation is ultimately “A perceived surfeit of money compared to all the other goods (and the other kinds of money) into which it thus becomes ever more eagerly exchanged.” The surfeit of U.S. dollars created by the Fed can only cause consumer prices to rise, no matter what our government officials tell us.